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KMS ProfitPower Tips for Lawyers™



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Robservations

Welcome to the April 2006 edition of "KMS ProfitPower Tips For Lawyers"...

The key observation to come out of my consulting in the last few months is that it is clearly innate in most human beings to get bogged down in daily detail and lose sight of the big picture...

Time and time again I encounter law firms where people are working hard but very ineffectively, and the day to day grind of getting the work out is being allowed to prevent the partners from stepping back for long enough to read the data, react to the data, and make some commonsense decisions about changing things for the better.

The mantra, "Work smarter, not harder" is readily recognized by most lawyers, but most seem incapable of actually living by it.

During one of the seminars in our recent Australasian "KMS Profit Improvement Tips" series one attendee commented that lifting profit is surely not nearly as easy as I make it seem.

Why shouldn't it be? Why does the paradigm persist that profit is hard to improve? Why do so many people mistakenly believe that the answer to better profits can only be in working harder, billing a few more hours, or billing higher fees?

Some Accountants (and some other professional advisers) have a lot to answer for in this area, as I regularly encounter

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them advising partners that it would be wise to lift their personal chargeable hours a bit as theirs are the top rates and this will lift revenues the fastest.

Unfortunately the guru who said, "Managing lawyers is like trying to herd cats", was right. Partner time spent ensuring that a growing team of fee-earners is performing effectively, has enough work, and is meeting all key goals, is time very well spent...far better than simply billing more yourself.

Partners and advisers who cannot see this fundamental truth have clearly not stopped long enough to examine the damage done to profit by even apparently small shortfalls in productivity across the "pyramid".

While partners fiddle with too much legal work, "Rome", represented by proper profits, certainly can burn.

I suspect that the real reason that people are in denial about the ability to lift profits easily is more fundamental, and is based on the refusal to believe that they aren't already doing pretty well. Egos reign supreme. Lawyers are generally people who have done well during their education and despite what some think...are generally looked up to.

To admit to oneself that you could be very ineffective in the business of running a legal practice, or personally ineffective in terms of maximizing your achievements without working more hours, is not an easy thing to do.

Ipsa facto, serious profit improvement can't be relatively simple, or it follows that, "I'm a bit slow", for not getting on to the correct path a lot earlier!

At KMS we will continue to crusade to enlighten lawyers and to help change their paradigms. We don't blame lawyers for being burdened with their current paradigms, but we worry for those who actively argue against commonsense alternatives, proven to have assisted fellow practitioners a great deal.

In this century, with all its dramatic changes for lawyers, an approach which shuts out commonsense alternatives because they don't fit a practitioner's paradigms, is a recipe for disaster.

Where does the profit disappear to?

A week hardly goes by without a lawyer somewhere asking me if it's really necessary and valuable to record activity on fixed fee work.

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The Editor, Rob Knowsley, is a lawyer, admitted 30 years, and has practiced successfully with firms of all sizes – city and country. As KMS Senior Consultant, his insights are based on the experience of nineteen years of consultancy assignments, and telephone support for lawyers in all areas of practice management and profit building. Many practices have quickly reaped the monetary benefits and enjoyed the feeling of being in more control of their business through his practical help.



The answer is, “Yes...definitely!”

In fact some argue that it's almost more important to do so.

Here's a powerful example I encountered recently where data collected from activity recording identified critical profit issues and allowed planning to take place to deal with another of the “disappearing profit” problems.

The partner was working in a suburban Brisbane practice in the Property area. Her KMS WorkPlan™ had her aiming to work 230 days a year at \$325/hr for 6.5 hours a day, and 2.5 hours a day Firm Time.

Realisation expectation was 85%...meaning a present acceptance of a write-down of 15% on average on all work done in the year.

The production calculation in the firm's budget was therefore... $230 \times \$325 \times 6.5 = \485875 @85% = \$421,990.

NB Her Bills target was different, to take into account opening and closing unbilled Work in Progress.

Not long after KMS WorkPlans™ and FeedBack Reports™ were set up in the firm it became apparent from her Feedback Report™ that she was actually only achieving daily activity capture in Property work at 5.6 hours a day, and that her Realisation Rate for Work in Progress converted to bills was just 52%!

Left unchecked, this scenario would have resulted in annual production of just \$217,672...a loss of profit of over \$200,000 from a single fee-earner.

Let's look in detail at the calculation...

\$325/hr billed at 52% is \$169/hr.

5.6hrs X 230 days X \$169 = \$217,672.

Without activity recording the fact of this problem would have taken longer to identify, and the causes and

solutions would be much harder to identify.

In such situations team members often thrash about coming up with all sorts of reasons for poor results, most of which turn out to be red herrings.

There appeared some simple solutions to turn things in the right direction.

1. Ensure the firm's Business Development activity was truly geared to generating enough work for the partner and her support team, so all had enough to do to meet their WorkPlans™, while only operating in the main on work which could support the bulk of their hourly rate...
2. Increase the fixed fees to levels that KMS knew were achievable in the market...
3. Introduce an ability to bill extra above the new fixed fees for truly unusual work needed to get a job done for the client...
4. Ensure that in the main the partner stayed strictly within guidelines when working on Property files, (yes, there are always exceptions, but let them prove the rule) so the fixed fees and any unusual work together allowed fee recovery at 85% or better of recorded activity, for anyone working on the file.

This simple plan is certainly not all encompassing, but addresses the key issues quickly and will deliver big profit uplift in a short period. Further fine-tuning can come later.

Let's examine the KMS Profit uplifts...

1. Keeping the partner busy even at the existing poor Realisation Rate adds around \$35,000pa noting that she only needed to do .9hrs day more to achieve 6.5 Client Time average...
2. Fees increased 15% across the

board, and processing efficiency, delivers a lift from an average \$169 an hour recovered to about \$194... adding another \$37000pa to the bottom line...

3. Targeting Business development to bring in work in which the partner can recover \$275/day for even half her day will add a further \$37,000pa

Total bottom line profit improvement from some very simple exercises ...\$109,000. Remember the total identified shortfall was over \$200,000. Still plenty of room for improvement!

The beauty of these sorts of approaches to creating real profits is that they deliver very real benefits per partner from the smallest firm to the largest firm.

Increasing leverage, and using good partner management to maximise the benefits of leverage, will allow even greater profit opportunities in larger firms if partners focus on the right issues.

Where does the profit also disappear to?

Recently I reviewed the performance of a KMS Client firm after 8 months of the current financial year.

What was evident in the profit being achieved against target profit was again a salutary lesson for those seeking to fully understand how easily potential profits can evaporate.

The firm had achieved 88% of target billings by the end of February. Expenses were at 99%. (Experienced practitioners will recognise this scenario...Expenses always seem closer to budget than Revenues!!).

An inexperienced observer's first inclination will be to regard to 88% of Revenue target as a fair result,

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especially as Expenses have been kept in check so far.

The reality is far different. Profits in the firm were at just 67% of target, and this represented over \$150,000 per partner shortfall in returns compared to budget. Why is this so when the difference between Expenses at 99% and Revenues at 88% appears to be in the region of just 11% down?

The answer of course lies in the fact that the 12% of Revenues not generated would all have been generated after the firm's breakeven point. The fixed Expenses had been incurred, and all additional Revenues would have been generated in the "Valley of Profit"...that wonderful hidden region just over the next hill that so many have heard of, yet few venture into!

Failure to generate enough work to keep the existing resources busy that final 12% had chopped profit by 33%.

Keep in mind that of course we are not talking about using 100% of the firm resources on Client Time. The revenue target was set as the sum of all the individual targets in the team members KMS WorkPlans™...all of which were eminently achievable with the right systems and supervision in place, provided partners led the teams effectively in implementation.

Planning and Monitoring Firm Time...

In my experience there are still many firms which do not carefully plan for and monitor the large part of their human resources which gets invested into the proper running of the firm and protecting its future and the futures of all stakeholders.

With millions of dollars at stake the resource is simply too valuable not to

plan and monitor.

My experience is that often firms find it hard to know where to start.

If you would like to see a short sample list of Firm Time categories and protocols for what to record and when please click here...

kmsfirmtime@lawfirmprofit.com

This complimentary example has formed the basis of successful Firm Time planning in many KMS client firms over the last nineteen years.

Remuneration Formulas... Phooey!

At seminars, and in my on-line consulting, I'm still getting many questions indicating that people are still locked in to the outdated and unnecessary paradigm that employed solicitor remuneration needs to be based on formulas to match market expectations.

Fact 1... The actual formulas mentioned vary greatly from practitioner to practitioner making them virtually useless at any event...

Fact 2... Far from being consistently attractive to employees, the point is often reached where sticking to a remuneration of a proportion of fees will grossly disadvantage an individual compared to market worth...

Fact 3... In isolation, formulas are not deeply bathed in commonsense... and often result in people being paid far more than they are worth...

Fact 4... Formulas usually rely heavily on the fees issue and fail to reflect (properly, or at all) the naturally varying contributions made by solicitors to the current and future success of the firm through contributions of Firm Time.

Fact 5... Paying based on formulas is essentially lazy...better to take the trouble to investigate what a solicitor's market worth is and pay them that or slightly better.

The Bottom-Line...paying based on formulas is another recipe for eventual disaster...

Are you busy?

Seems a pretty harmless question, but it contains a real danger.

The harm isn't in the question...but in the fact that the person answering is usually not in a position to give an accurate answer in my experience.

I regularly see solicitors saying they're busy, when the data provided a few weeks later in their KMS FeedBack Report™ shows clearly that they had not even reached their agreed WorkPlan™ levels of Firm Time and Client Time.

Anecdotal evidence is no evidence at all...you need to manage based on facts if you are going to generate proper profits in your practice.

The keys are decent WorkPlans™, an effective Business Development program, a sound activity capture system, good billing systems, and a quality system of feedback and analysis.

Biggest Killers Of Profit In Small-Medium Legal Practice...

I recently prepared some notes for a short talk to Regional Law Societies on this topic. If you'd like a copy please click here now to e-mail me your request...

profitkillers@lawfirmprofit.com

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Why do many apparently good legal firms die?

When I was practicing in Sydney from 1981 to 1988 I dealt with many lawyers in firms which appeared to have been around a very long time and appeared to be thriving.

Sadly many have simply not survived.

Ironically, many of the name firms which no longer exist toyed with the idea of getting a Management Consultant in to help give them direction, and some had brief discussions with me as many as three times over the years, but never got moving.

Essentially they didn't change with the times, didn't listen to internal voices of reason, and didn't get people with good ideas and enthusiasm into the firm at the right time.

As profits dropped better people started to see better opportunities elsewhere, and the average quality of management ideas and enthusiasm continued to decline.

What happens with practices like this is that they get a reputation for being a lawyer dead-end...and it becomes impossible to attract the right quality of people.

Eventually the remaining partners die or otherwise retire, and the few remaining assets are swallowed up by another firm or firms.

The moral of the story appears to be that there's never a wrong time for decisive action to change what isn't working!

As someone once said, "If you find yourself in a deep hole, stop digging"!

Certainly substantial change can be difficult for people, but a system which is failing to deal satisfactorily with change, and failing to produce healthy profits, is a system taking a firm to its logical end...it's just a matter of time!

Individual lawyer planning examples in practice...

KMS WorkPlans™...some quick notes on practical examples of changes as a result of data collected and analysed over the preceding year...

- A young lawyer who had demonstrated his ability to organise himself doing lower level work, and consistently recorded above his WorkPlan™ target of 2 Firm and 7 Client per day, and achieved billing target.

Can be moved to better work at a better hourly rate, remuneration improvement and much higher billings. Career development satisfaction, but no greater need yet for Firm Time as not yet supervising others or heavily involved in Business Development. Main Firm Time component continues to be Training, but now at a higher level of work.

- A partner who had managed to attract significant work and was able to build the pyramid by employing and training a net two additional lawyers during the year. Clearly needs an extra hour a day Firm Time for Training and Supervision alone.

The apparent loss of Revenues from that hour are more than compensated for by the hundreds of thousands of

dollars of additional revenue from the two new fee-earners...revenues which will dramatically impact on profits, as fixed overheads are long since covered and the firm is way too smart to be paying remuneration based on formulas!

- A para-legal, who while able to do less hours due to a change in carer arrangements, had the capability to increase her charge rate and delegate more because of effective Business Development in the previous period...personal billings up \$30,000pa, and increased leverage of an assistant, while working less hours.
- Two solicitors of roughly the same experience in a small Melbourne firm highlight the importance of treating people as individuals. Both had KMS WorkPlans™ involving total daily commitment of 8.5 hours, but in the previous period one's WorkPlan™ structure was Firm 2 Client 6.5, and the other's was 7 and 1.5.

As a result of data available it was possible to meet individual lifestyle and remuneration goals by a different approach.

One solicitor left her total time at 8.5 but saw the evidence that she was not using or needing 1.5 hours a day Firm Time and dropped it to 1 hour...increasing Client Time .5/day.

The other solicitor did need his 1.5 Firm Time, but was prepared to invest 9 hours a day so as to be able to lift his Client Time .5 of an hour to 7.5 per day...

He had already been offered a normal remuneration increase, but was able to demonstrate he was worth more...but not because of a formula!!

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